# Capital Outlay

## General Overview

Capital Outlay is the portion of the State budget that is devoted to the planning and financing of construction, renovation, remodeling, repair, and maintenance of facilities and capital assets for use by State agencies, community colleges, and State-supported public universities.

Legislative oversight of the State's capital outlay process is provided by the Joint Capital Outlay Subcommittee, which is the only appropriations subcommittee specifically charged with duties in statute. The Management and Budget Act (Public Act 431 of 1984 as amended) outlines operational practices, procedures, and other executive, legislative, and higher education duties and responsibilities relative to capital outlay. In addition, the State Building Authority Act (Public Act 183 of 1964), annual capital outlay appropriation acts, and the formal policies of the JCOS provide procedural structure, and approval requirements of State capital outlay projects.

## Joint Capital Outlay Subcommittee

In recent years, the JCOS has been comprised of 16 members of the appropriations committee, eight from each house. The JCOS is chaired alternately by each chamber on a two-year rotation, with a member from the other house serving as vice chair. In 2007 and 2008, the House will chair JCOS. Unlike other appropriations subcommittees, the JCOS meets throughout the year to review and approve various capital outlay documents, lease agreements, and other issues, as required by law. Due to its size and required duties and responsibilities, the JCOS functions more like a regular standing committee than an appropriations subcommittee.

Some of the specific duties and responsibilities of the JCOS include:

- Prioritizing future State agency, university, and community college capital outlay project requests.
- Authorizing planning requests for State agency, university, and community college capital outlay projects in an appropriations bill.
- Approving or disapproving project program statements and schematic design planning documents.
- Establishing a project's total cost and financing sources through the inclusion of a construction authorization in an appropriations bill.
- Approving or disapproving State agency requests to lease private space (mainly for large space needs).
- Approving or disapproving Use and Finance Statements for non State-funded projects.
- Approving or disapproving fund transfer requests between capital outlay project accounts.
- Approving or disapproving concurrent resolutions on behalf of the State Building Authority which convey property and establish lease agreements between the SBA and the State.
- Reviewing the Governor's annual capital outlay budget requests.
- Reviewing funding proposals for special maintenance projects.
- Reviewing boilerplate and other project reports.

## Michigan's Capital Outlay Process

Most capital outlay projects follow a specific process which governs and controls the development of a project from inception to completion. While the process allows for some flexibility, most large projects follow specific procedures outlined either in law, boilerplate, or JCOS policy. The following summary is the process for a typical capital outlay construction project at a State agency, community college, or university.

1. **Submission of Master Plans** - Five-year master plans are required by law to be submitted annually to the Department of Management and Budget (DMB) and the Joint Capital Outlay Subcommittee (JCOS). These master plans also include, as part of the plan, current capital outlay project requests.

2. **DMB/JCOS Review of Master Plans** - Five year master plans are reviewed by the DMB and the JCOS. From this review, the Governor may include approved State agency, university, or community college project planning requests in the annual Executive budget request. The JCOS, and ultimately the entire legislature, reviews the Governor's recommendations. In addition, the Legislature may include capital outlay project requests not recommended by the Governor in a capital outlay appropriation bill.

3. **Planning Authorization** - Approved planning authorizations appear as $100 line-item appropriations in an enacted bill. The $100 line item establishes the account and allows the college or university to proceed with professionally developed program and schematic planning documents. These documents provide the project's purpose, scope, and estimated cost. All planning costs must be paid by the institution and will count toward the institution's eventual project match.

4. **Planning Document Review and Approval** - Once authorized for planning, program and schematic planning documents for the project must be submitted to the DMB for review and approval. These documents include the basic size and design of the project along with the anticipated project cost. Once approved, the DMB submits the documents to the JCOS for review and approval. Upon successful review, the JCOS approves the documents with recommendation that a total cost and construction authorization for the project be established in an appropriations bill.

5. **Construction and Cost Authorization** - Upon JCOS approval of the schematic planning documents, the JCOS authorizes the project to proceed to final design and construction by establishing a total cost authorization in an appropriation bill. This authorization delineates both the total project cost and the financing shares to be borne by the State and the institution and allows the project to move into final design and construction.

6. **Final Design/Construction** - Once a project receives construction authorization in an appropriation bill, the project may proceed to final design. Preliminary and final design documents must be submitted to, and approved by, the DMB. Final design documents are used as bid documents for the project.

7. **Project Management** - While most institutions now manage their own projects, DMB can also serve as project manager during construction. Construction documents continue to be reviewed by the DMB and the SBA for program compliance.

8. **Construction Financing** - Institutions are required to spend their portion of the project cost before any State funds are released. Once the institution's share of the project financing is exhausted, the State, generally through the State Building Authority, finances the balance of the project, first by issuing short term "commercial paper" financing, and then through the sale of long-term bonds.

## Capital Outlay Financing

There are essentially two ways to finance capital construction projects: as lump-sum cash payments, or long-term financing through the issuance of debt in cooperation with the State Building Authority (SBA). Under a lump-sum cash system, appropriations are typically made prior to a project's start, and cover project costs as they occur, or as a lump sum upon completion. While some projects (especially smaller, more routine maintenance and remodeling projects) are funded this way, most larger building projects are financed through the State Building Authority.

The State Building Authority, created by Public Act 183 of 1964, is governed by a five-member Board of Trustees appointed by the Governor with advice and consent of the Senate. The State Building Authority finances capital projects through the issuance of revenue bonds, which are limited obligations of the SBA and not general obligations of the State. The SBA is limited by statute to total outstanding debt at any one time of $2.7 billion. This figure is often referred to as the bond limit or bond cap. Table 1 depicts statutory changes in the State's bond cap.

Before bonds are issued to finance a project, the Legislature, through a concurrent resolution, must convey ownership of the project to the SBA and approve a lease agreement between the SBA, the institution, and the State. Since the SBA then owns the project, the State must rent the facility from the SBA. It does so at a "true market" rental rate established by an appraiser. The State pledges to make annual rental payments to the SBA, which are used by the SBA to pay off the bonds. Once the bonds are retired, the property is conveyed back to the institution. In essence, the SBA acts as a mortgage banker that retains ownership of the property until the debt is retired. Annual rental (debt service) payments to the SBA are mostly General Fund appropriations, and are provided each year in the General Government budget bill. For FY 2006-07, SBA rental payments are appropriated at $237.8 million. Table 2 depicts the General Fund appropriation history for SBA rent.

## Other Issues

In addition to capital outlay building projects, the JCOS is also responsible for approving State agency requests to lease private property if the lease request is over 25,000 sq. ft. or typically over $1,000,000. Smaller leases usually only require notification to the JCOS of intent to enter into a lease. Finally, the JCOS considers other appropriation requests in the annual capital outlay appropriations bill. These include funding for State agency special maintenance needs; money for Natural Resources projects including State parks, wildlife habitat and management needs, boating access sites, and harbors, and docks; money for transportation buildings and maintenance garages; and funding for airport improvement projects.